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ISSUE 1: ENVIRONMENT CONDUCIVE TO SUSTAINED GROWTH OF SMALL- AND MEDIUM-SCALE ENTERPRISES*

Discussion paper

Prepared by

the UNIDO Secretariat

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Integration of small- and medium-scale policies and strategies in overall development plans

1. There is renewed and widespread recognition of the importance of the small- and medium-scale enterprise sector as an agent of balanced economic growth and welfare. The economic crises of the 1980s slowed down growth in the developing countries as they were forced to reduce or abandon new investments to cope with mounting debt burdens, depressed commodity prices and a growing trend in restrictive trade practices. The focus of policies has consequently shifted to small- and medium-scale production to meet internal demand for industrial products and to exploit market niches in exports.

2. The potential for industrialization through small- and medium-scale enterprises is subsumed in the critical role that they play in employment generation, redistribution of income, eradication of poverty, reduction of regional imbalances, promotion of vertical integration and in saving and/or earnings of foreign exchange. Moreover, small- and medium-scale enterprises provide the breeding ground for the development of entrepreneurship which is recognized to be a vital factor for the industrialization of the developing countries. One of the most important factors influencing this process is the promotion of an economic environment that is responsive to market signals. Since the sector's economic contribution is generated by thousands of enterprising men and women, the right environment would unleash their private initiative and latent entrepreneurial spirit and talents.

3. Developing countries in general lack an appropriate policy framework for an effective growth of small- and medium-scale enterprises. Policies tailored to the specific requirements of the sector are a necessary condition to produce the desired impact. Often the macro-economic policy framework and its measures have a built-in bias towards large-scale industries and the use of capital-intensive technologies. Subsequently, these measures are often detrimental to the needs of small- and medium-scale enterprises and signal the need for deregulation and structural reforms at the macro-policy level. Economic measures should be of a long-term nature and should consider the overall linkage between large-, medium- and small-scale industries and enterprises. Small- and medium-scale enterprise policies should be integrated in overall economic development plans, since small- and medium-scale enterprises are an integral part of the overall economy.

Harmonization of macro-economic, fiscal, financial and other policies with incentive measures for small- and medium-scale enterprises

4. The recognition of small- and medium-scale enterprises as an integral part of the economy presupposes that they should be treated on an equal basis with their large-scale partners. However, in many countries, the economic development policy and practice had been dominated by the large-scale sector. Subsequently, all existing macro-economic policies as well as fiscal and financial measures focus on the needs of the sector. Little or no attention has been given to the specific needs and requirements of small enterprises. If small- and medium-scale enterprise development is to be given the emphasis it deserves, the incentives necessary for sustained growth of the sector need to be established and should be integrated within overall development plans, programmes and policies of industrialization. In the first instance, the adverse effects of existing economic policy measures on the development of small- and medium-scale industries should be reviewed in order to establish the most appropriate policy mix. Secondly, incentive measures and mechanisms should be so designed and administered so as to induce a substantial flow of investments to small- and medium-scale enterprises. These imply a thorough

review and analysis not only of fiscal and financial policies, imports and exports, marketing etc., but also cover other sectors such as agriculture, trade, transport, infrastructure as well as training and education, with the aim of promoting a harmonious development of small- and medium-scale enterprises alongside the large-scale sector.

Creation of an appropriate environment and long-term government commitment as a priority in the development of small- and medium-scale enterprises

5. The environment is the most important factor among the elements and policy instruments applied to stimulate growth of small- and medium-scale enterprises. It is not the industrial or economic environment alone but the general socio-economic and political environment which stimulates or hampers potential entrepreneurs to risk their own funds and invest in their own enterprise. In cases of economic instability and uncertainty, or if the rate of return on investment is higher or equally high in other sectors, entrepreneurs would not invest in small- or medium-scale enterprises even if there were a network of promotional measures available. Instead, they would invest their savings in housing, real estate, agriculture or other sectors perceived as more profitable.

6. There are a number of measures to improve the environment of the small- and medium-scale enterprise sector. The first one is the inclusion of small- and medium-scale enterprises into the economic policy and planning framework as an important element having, however, some characteristics which require specific measures. Furthermore, small entrepreneurs are hampered by the numerous regulations governing economic and industrial development. Deregulation and reduction of bureaucratic requirements would help small- and medium-scale enterprises; the more so as many of the rules are meant for large-scale enterprises and are not always fully applicable to the small-scale sector.

7. Any policy framework for effective growth of small- and medium-scale enterprises should be of a long-term nature. Strategies and policy measures need to be tailored to the specific needs of the sector, analyzing in detail the requirements and developing well-defined measures for practical implementation. The measures should be consistent with the target groups for which they are intended to serve as well as with the responsibilities and functions of public, semi-public or private institutions providing these services.

8. There are some definitional problems in determining the target groups. Whilst there is a flexible line between the medium- and small-scale sector, a new group - the informal or micro-enterprises - has attracted the attention of policy-makers. The need to define the micro-, small- and medium-scale enterprises at the national level is not a subject of discussion. A definition is needed to determine the types of enterprise for which a number of incentives are valid. Some countries are using as criteria capital invested in machinery and equipment, others the number of employees, or a combination of both. A few countries use additional factors such as electricity consumption or even qualitative criteria to determine the respective target groups. An internationally valid definition is not meaningful, since the groups of beneficiaries and the purpose for which small- and medium-scale enterprises are meant differ greatly from country to country.

9. Few countries have as yet a well-defined policy framework for effective growth of small- and medium-scale enterprises and where such policies do exist, these have been found ineffective due to insufficiently defined target

groups, lack of co-ordinated provision of inputs as well as legal and procedural barriers.

10. The appropriate environment for the smooth growth of small- and medium-scale enterprises requires a set of well-defined strategies and policies. If such a system does not yet exist, it should be established as an integral part of the economic policy. Existing institutional support mechanisms for small- and medium-scale enterprises need to be analyzed so as to determine their suitability for the objectives for which they were originally intended.

11. The guiding principle of the entire range of measures for accelerated growth of small- and medium-scale enterprises should be based on feasible, viable, competitive and self-reliant enterprises. The market and profitability of the individual enterprise should be the dominating factor. Policy measures to support development should not only be of a fixed time-frame for individual units but also lead to an institutional framework available to the small- and medium-scale enterprise sector on a long-term basis to enable growth to be sustained and substantial.

Establishment of institutions at the national level for entrepreneurship development programmes

12. National institutions for the development and support of small- and medium-scale enterprises are required to act as intermediaries between the government and the entrepreneurs. The institutions are expected to analyze the requirements of the sector and synthesize them for submission to the policy-making organs, and represent the small- and medium-scale enterprise sector's interests vis-à-vis the government and other public bodies.

13. National institutes should reach as many small- and medium-scale enterprise units as possible. Since the individual clients will be scattered all over the country, one central institute would suffice at the initial stage only and a decentralized system of service institutes should be offered at a higher development level. The number, type and location of the institutes should be determined according to the demand and distribution of small- and medium-scale enterprises.

14. The choice of location of the service institutes should be based on the availability of services to individual clients bearing in mind operation costs. Moreover, care should be taken to offer sector-specific assistance at certain locations. The most effective way to offer services is provision in the form of a comprehensive package of measures. Compartmentalized measures will not produce the expected results; on the contrary, they might defeat the basic objectives. The goal should be an integrated approach with regional and sectoral coverage.

15. The degree of development of the small- and medium-scale enterprise sector is a determining factor in chosing a single window approach (one institute providing all services required) or a multi-window approach (several institutes providing a number of specialized services). At an early stage, the single window solution should be given preference. Increased development requires specialization in these services and would favour multi-window solutions which in turn demand well-functioning co-ordination among the specialized institutes.

16. Small- and medium-scale enterprises should be managed effectively; they must react quickly to the demand of the market, the trends in tastes, styles

and behaviours of customers. They need to be flexible in order to be efficient. The development and support institutions should react in the same way. If the appraisal for obtaining a loan takes many months before the funds are made available, the opportunity on the market may have been taken by somebody else. Service institutions working for the benefit of small- and medium-scale enterprises should be able to react quickly to demand and should be managed in an enterprise-like manner. A slow bureacratic administration will certainly defeat the objective. The staff of the institutions are in daily contact with the enterprises. If their salary scales and their total remuneration are much below the level of the industrial sector, there will be a continuous exodus of experience from the institute towards better paid employment opportunities in the industrial sector. Under these circumstances it will be difficult for the institutes to maintain their skills, experience and knowledge in giving advice to small- and medium-scale enterprises.

17. In the 1960s and 1970s many such institutions were set up in developing countries under bilateral or multilateral technical co-operation schemes. However, these bureaux became weighed down with administrative detail and in many cases lost contact with their potential clients. Analysis of the situation is urgently required. If need be, the existing institutes should be transformed into real service stations providing advice and guidance to their clients, the entrepreneurs of small- and medium-scale units. This restructuring should focus on increased participation of semi-governmental or private initiative.

Role of industrial co-operatives

18. It has been recognized that industrial co-operatives have an important role to play within the socio-economic environment of small- and medium-scale enterprise development. Particularly in centrally-planned economy countries, industrial co-operatives are the preferred form of ownership in the small- and medium-scale enterprise sector. While certain fundamental management problems have limited their growth in market economy countries, there is considerable scope for their development in specific sectors such as agro-based industries and micro-enterprises (informal sector). In addition, their role in marketing and the supply of raw materials, mobilizing financial reserves and savings among members as well as their function in channelling mini-loans, especially in rural areas and in the informal sector, underscore the importance of measures aimed at the development of industrial co-operatives.

Need for a single window agency for ensuring co-ordinated provision of inputs for small- and medium-scale enterprises

19. Requests for support from the small- and medium-scale enterprise sector are manifold covering a variety of activities such as information and advice on economic and managerial matters, project appraisal for loans, and selection of technologies appropriate to the situation; they also include physical infrastructure measures such as the provision of water and sewerage lines, road connections, electricity or gas supply, and can even include the provision of functional workshops within or outside an industrial estate. Whilst the provision of "normal development incentives" does not create undue co-ordination problems, difficulties increase when infrastructural services are requested. In such cases it has been advantageous to entrust a development institute with full responsibility of all co-ordination activities in order to ensure co-ordinated and timely provision of all necessary inputs for the small- and medium-scale entrepreneurs.

Role of associations of small- and medium-scale enterprises

20. The government policy framework and institutional infrastructure set up form the background for creating feasible, viable and profitable small- and medium-scale enterprises.

21. At the initial stage of development, these two elements - governments and institutions - play the major role. In reaching a higher degree of development, the entrepreneurs themselves as the beneficiaries of these environmental measures should be directly involved in the development process of their own sector. Through the creation of groups they could speak for themselves and should present their interest vis-à-vis the government as well as the institutions. In addition, entrepreneurs should have the possibility to provide part of their services to their fellow entrepreneurs and to some extent take over the initial service function of governments and/or institutions. In a number of countries, associations of entrepreneurs have become important factors for negotiation with institutes and policy-making organs. The creation and development of entrepreneurial associations should be supported as an important mechanism in the promotion of small- and medium-scale enterprises.

Final consideration

22. Based on the above-mentioned problems confronting small- and medium-scale enterprises in their development, the Meeting may wish to examine the following key considerations with a view to elaborate conclusions and recommendations for accelerated growth of the sector.

(a) Integration of small- and medium-scale policies and strategies in overall development plans

Prerequisites for the optimum contribution of the small- and medium-scale enterprise sector to the overall economy:

- Institutional bodies such as National Council for Small- and Medium-Scale Enterprises to set overall national objectives, define sectoral strategies, and establish suitable mechanisms for co-ordination and mobilization of resources;

- Strategic planning focussed on integrating small- and medium-scale enterprises in overall national plans covering methodologies, policy instruments, regional and rural development objectives and sectoral target setting;

- Participation of the key agents of change, namely enterprises, urban and rural communities, manufacturing associations, universities and research institutions in the formulation of plans, policies and strategies;

- Establishment of a coherent national programme of action for the development of entrepreneurship facilitating growth from micro-enterprises through small to medium enterprises;

- Long-term public commitment to small- and medium-scale enterprises and to the development of an entrepreneurial culture enshrined in policy pronouncements and allocation of resources for reseach and development, training and promotional activities.

(b) Harmonization of macro-economic, fiscal, financial and other policies with incentive measures for small- and medium-scale enterprises

Development of national capabilities and capacities for formulating and administering strategic policy measures and mechanisms to create an economic environment conducive to the growth of small- and medium-scale enterprises covering inter alia:

- Analysis of existing macro-economic policy measures with a view to their impact on the small- and medium-scale enterprise sector;
- Deregulation possibilities at the macro-economic level;
- Harmonization of macro-economic measures with an integrated incentive scheme for small- and medium-scale enterprises;
- Restructuring and reorienting existing mechanisms and legislations of incentive measures;
- Efficient administration of support policies and measures.

(c) Establishment of institutions at the national level for entrepreneurship development programmes

- Network of institutes to provide integrated and comprehensive packages of support measures either through a single window and/or multi-window approach;
- Private sector role in the operation of service institutes on business lines;
- The changing roles of Small Industry Development Organizations (SIDOs) and industrial co-operatives and their needs of technical co-operation in regard to marketing, supply of raw materials and as lending channels for financial assistance.

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ISSUE 2: PRODUCTIVITY IMPROVEMENTS*

Discussion paper

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1. Developing countries have created and operated a large number of small- and medium-scale enterprises usually under a régime of institutional support. In general, however, the enterprises so created have faced a variety of production and management problems that the enterprises did not succeed to progress to higher levels of production and profitability. Modernization programmes have to be launched and seriously sustained to make the maximum use of installed capacity and to operate new ones on a profitable basis.

2. This paper concentrates on productivity improvements in an individual enterprise, workshops or offices of thousands of entrepreneurs manufacturing in or operating their own small- or medium-sized enterprise. The issue will touch upon a large variety of measures and services for the benefit of the small- and medium-scale enterprise sector, policy-makers in government offices, institutions, associations and co-operatives as well as private and publicly-owned industries.

3. Productivity improvement measures are specific requirements of the sector. The reasons are the variety of experiences of entrepreneurs, and more important their lack of experience in a number of fields.

4. Artisans and traders are the two largest groups of potential entrepeneurs of small- and medium-scale enterprises. The first group knows how to handle the material, possesses production skills at the artisan level, but needs training in more mechanized production. The artisan normally produces for a specific customer. Industrial production, however, needs different sales and distribution channels, since the products are manufactured for the open market. Therefore, a different market strategy would be required.

5. The second group, entrepreneurs with a trading background, faces difficulties in the fields of technology and engineering as well as in the production process. This group has less difficulty in purchasing raw materials and in marketing the products.

6. Entrepreneurs of small- and medium-scale enterprises could be characterized as those with self-reliance, willing to take risks and to solve problems. They are motivated by achievements, independent work and initiative to reach their goal which is to multiply their investment and earn their income in operating their business in a profitable manner. The entrepreneur is the most important and valuable element for building up a strong small- and medium-scale enterprise sector. Efforts to improve productivity should focus on the willingness and absorption capacity of the individual entrepreneurs. The network of institutes and services should provide the entrepreneur with timely information to enable appropriate decision-making. The built-in weaknesses of the entrepreneur and his/her lack of experience in some fields to operate his/her business should be the yardstick of the measures required. The services offered to the entrepreneur should enable him/her to take the right step and to counterbalance deficiencies.

7. The system of institutional measures and services available to the entrepreneur should allow for smooth, balanced and accelerated growth of small- and medium-scale enterprise units.

8. Productivity improvement measures should be applicable to potential would-be entrepreneurs to select the right project which suits his/her experience and financial means. The newly established enterprise should gain from those measures to overcome initial difficulties and develop in the right direction. A network of services should also be made available to the large number of existing enterprises which need to update and upgrade their

production to a higher level of technology. Such services should also be provided to sick or malfunctioning units which need restructuring in order to become viable and profitable. Subsequently, the services should be offered, as required, at the pre-investment stage, the implementation phase and at the operational and post-investment phase.

Institutional infrastructure, extension service and industrial estates

9. Institutional infrastructure and extension services should be closely related. A network of institutes is required to deliver the services to the clients. In other words, the institutes are the tool through which the missing knowledge and experience should be transmitted to the individual entrepreneurs. The ability to communicate successfully depends on the level of communication, the vocabulary used, and the means of delivery. The institutes' approach towards the clients should take into consideration the specific requirements of the target groups and their level. The ultimate goal of all institutes should be to identify and reach the recipients, owners or managers, foremen or workers of enterprises.

10. Small- and medium-scale enterprises are a diversified target group for extension service. Their problems are often complex. The requirements for support and assistance are manifold, ranging from supply of economic and other information to project appraisal, and training of staff for solving most sophisticated technological problems or advising on subcontracting arrangements.

11. From the substantive point of view, there are two main fields:

(a) Support in solving economic and managerial problems; and
(b) Advice on technological and engineering problems.

12. Regarding the economic and managerial field, the advice required could include the following:

- Supply of basic economic, statistical, legal, marketing and other information;
- All aspects of management, organization of work etc.;
- Guidance on cost accountancy (elements for price calculation);
- Advice on financial accountancy (preparation of balance sheets, financial planning etc.);
- Interpretation of tax and other legal requirements;
- Advice on potential sources of finance, preparation of documentation for application of loans and other appraisal documents;
- Identification of training requirements within the enterprise and selection of potential training sources;
- Identification of raw material supply;
- Guidance on the identification of additional domestic and export marketing possibilities, subcontracting arrangements and partners for co-operation etc.

13. In the fields of technology and engineering, required advice of small- and medium-scale enterprises could focus on:

- Choice of technology, equipment requirements, and selection of suppliers;
- Organization or reorganization of production with special emphasis on a more suitable flow of material;
- Solution of technological, technical or engineering problems;

- Quality control, standardization and design of products, especially for subcontracting or export production;
- Training in maintenance of machinery and equipment;
- Rental of production tools;
- Provision of complicated, expensive or special production facilities and equipment to be used on a time basis through common facility workshops;
- Production of spare parts, devices, tools, dies etc.;
- Product development and design;
- Development and adaptation of technology.

14. Many more items could be added to both these lists. Services of the economic, commercial and managerial group are more of an advisory nature, whereas some of the services in the technological and engineering sector contain advice on production elements and supply of items, as well as the provision of services such as maintenance which could be performed by commercial firms provided they were readily available to the client.

15. The services required can also be grouped into ad hoc requirements (or those required at irregular intervals) on the one side and regular services on the other. The preparation of feasibility studies, project identification and appraisal, product development, development and adaptation of technology, reorganization of production lines as a result of changes of technology or markets etc. would fall within the first category. The second category, regular services, consists of maintenance work, advice on book-keeping, raw material supply etc. Ad hoc or irregular services require close co-operation between the entrepreneur and the extension service personnel and have only a limited bearing on the training of the recipient, the entrepreneur and his staff. Regular services should be seen as a combination of service delivery and at the same time training of the client. The training element in this type of service is an important one. The enterprise should be in the position to operate independently and without external assistance after a certain time. It is one of the major principles of support to the small- and medium-scale enterprise sector that services are provided to enterprises as help for self-help. The support to individual units should be of a limited duration. Within the given time-frame, the enterpreneur and his/her workers should be trained sufficiently to enable them to operate the business independently and efficiently.

16. None of the institutes can be expected to perform the entire spectrum of non-financial services nor can they cover an entire country and reach all interested enterprises.

17. In practice, the main functions to be performed would be covered by one institute or by a number of institutes with branch offices in the major growth centres within a country. Every institute will specialize in certain fields and will serve enterprises in a certain location. The size and density of the network of institutes will depend on the industrial environment, the needs and intentions of policy-makers and, of course, on the funds set aside for such institutes.

18. In any case, an effective and efficient industrial extension service requires a network of institutions. A network means that institutes co-operate closely with each other; they should not operate in isolation of each other or the clients. Close co-operation between the different institutes on the one side and the institutes and the clients on the other is an indispensible prerequisite for an effective extension service as well as a conducive climate for growth of small- and medium-scale enterprises.

19. Proper co-operation among non-finance institutes as well as close liaison between non-financial service agents, finance institutes and banks are lacking in many countries. Experience has shown that close co-operation between all types of institutions is required to achieve the goal to provide small- and medium-scale enterprise units with the necessary services and create the climate conducive to accelerated growth of the sector.

20. The legal form of institutes providing such extension services ranges from government departments, semi-autonomous small industry service institutes and technical service centres to extension service departments of development banks or industrial estates, management and entrepreneurship development and training institutions operated by co-operatives or associations. One of the lessons learned from experience is that the institution serving the small- and medium-scale enterprise sector should act in a flexible and business-like manner. Government offices or government-owned and operated extension agents have by definition less flexibility. An analysis has shown that in general service institutions with less government involvement work more efficiently. Here again, the government is required to play a catalytic role at the early stage of small- and medium-scale enterprise development. In reaching a higher level of development, the private or semi-private initiative should be allowed to play a significant role in the provision of services.

21. Another lesson learned is that services provided free of charge are often not effective. Selection of clients does not take place and the extension service staff cannot cope with all requests.

22. Charges for some subsidized services should be given preference to free services. They should not be prohibitive and scare away clients who really need the services. It is a fact that paid services are more effective than those free of charge. In addition, the minimal income of the service institute through service charges would give some incentive to the extension service staff and reduce the burden of subsidizing the sector by the government.

23. Attention should also be paid to the terms of employment of extension or service institute staff. Employment should allow flexibility of work, achievement motivation and provide award for initiative. If necessary, exchange of staff whose performance is not up to standard should also be possible.

24. The determination of the function, location and kind of institute to provide services has always been problematic. In the 1970s, many small- and medium-scale enterprise development institutes were set up under the guidance of bilateral or multilateral technical co-operation schemes. Often, however, there was no prior survey of the requirements. The top-to-bottom approach to determine the needs did not work, and inefficient institutes were established, sometimes at the wrong location and staffed with inexperienced, unmotivated personnel. This type of institute is bound to fail and should be restructured, re-equipped and restaffed in order to become efficient support agents for small- and medium-sized enterprises.

25. Every entrepreneur needs a detailed feasibility study before the decision is taken to invest in the venture. Likewise a thorough analysis of the requirements of the existing small- and medium-scale enterprises and the expected and potential entrepreneurs should be made. Commercial firms or semi-private agencies should be included in the analysis.

26. Political factors should not influence the decision-making process in solving commercial and developmental problems. In elaborating the budget of institutes, the often high operational costs should be taken into account. In the past, many development centres, extension service agents, technical service centres or common facility centres have been donated to developing countries by large firms or through bilateral or multilateral technical co-operation schemes. Only after the official opening ceremony has the country realized that it was short of funds to operate the venture and that the requirements offered did not match those needed by the small- and medium-scale enterprise sector. The recurrent operational costs of development institutes of all kinds should not be underestimated. Lack of funds has in many cases been the reason for inefficient performance and insufficient contacts with the clients. The flexibility of the work and the mobility of staff generate high operational costs, but are indispensable for efficient delivery of services to the clients.

27. Among the various elements and measures to support growth of small- and medium-scale enterprises, industrial estates have a specific role to play. In the 1960s and 1970s, the construction of industrial estates was of high priority. Many industrial estates were established, but failed to be filled with enterprises. Return on investment did not achieve the expected results, since the buildings either deteriorated or were used for other purposes in order to recover the funds. This situation created some doubts as to the usefulness of industrial estates as a development tool for industrialization. The establishment of industrial estates is one way to provide factory space or shelter mainly to small-, but also to medium-sized industries. Industrial estates do not create enterprises or entrepreneurs. However, the provision of workshops to entrepreneurs helps them tremendously to overcome the initial difficulties during the starting period of an enterprise. An industrial estate is not "the tool" but a valuable element within the various instruments applicable to accelerated small- and medium-scale enterprise development. An industrial estate absorbs large amounts of capital by the sponsor, often the governments, and only liquidates them over a long period of time through the rent paid by the tenants. Industrial estates provide the physical infrastructure and modern and functional workshops. However, before starting construction, a detailed feasibility study of the industrial estate is required analyzing the demand for factory space, making a thorough and detailed calculation of costs and selecting a location.

28. Since an industrial estate is one of the support elements in the development of small- and medium-scale enterprises, enterprises located within industrial estates should qualify for the same comprehensive package of extension services as any other enterprise located elsewhere. In the 1970s, many industrial estate schemes underwent difficulties due to lack of those facilities.

29. Many industrial estate schemes offered rented factory space at subsidized rates as a benefit for start-up of an enterprise. They have acted as a kind of nursery for the enterprise with the result that the enterprise developed and enlarged without giving up their favourable position. Therefore, incentives should be offered to vacate the industrial estate in order to give a chance to a new enterprise.

Transfer and development of technology for small- and medium-scale enterprises

30. During the last decade, the industrial sector has undergone a change due to new technologies based on scientific research and application of electronic data processing and computerized production techniques. This change has also affected the small- and medium-scale enterprise sector. Many manufacturers of machines and equipment have designed products which suit their main markets - the markets of industrialized countries - but are to some extent not directly applicable to the conditions prevailing in developing countries. They are designed for labour saving and high production output, whereas the requirements of the developing countries call for more labour-intensive production techniques and lower capacities due to employment problems on the one hand and small markets and lower income on the other. This calls for more effort to identify technologies still suitable to the market and economic requirements of the majority of developing countries. Moreover, institutes should intensify research and development in the transfer and adaptation of technologies and initiate efforts towards the development of appropriate technologies. It could be effected either on the basis of increased co-operation between developing countries or through the opening up of new channels of co-operation between those countries and medium-sized or even small but specialized manufacturers in industrialized countries. Research in this field has not been adequate in the past and should be intensified in order to offer the technologies required by the small- and medium-scale enterprise sector in developing countries.

Marketing of small- and medium-scale enterprise products

31. Marketing has not been given the required attention by either the entrepreneurs of the small-scale units or the development institutes. The higher degree of development and communication has led to more complex marketing. Small-scale enterprises, however, regard marketing as a simple sales activity and have not devoted any effort to developing a marketing concept or a product strategy for their goods or a price, promotion and distribution strategy. In the case of small- and medium-scale enterprises, it is particularly important to define the target market and to determine special market niches or select specific segments of the market which would offer the most favourable sales conditions for the product.

32. Development institutes should take up or intensify their activities in advising and training in marketing strategies and techniques. Advice should include product costing, packaging (including improvements in design of packaging) and marketing channels.

33. Additional market outlets should be opened up for small- and medium-scale enterprise products such as government and/or institutional purchases. Measures to increase market outlets should be promotional and not of a protective nature. Protective measures should only be applied to stop unfair import competition even if it means higher consumer costs on a temporary basis. New suitable marketing strategies should be developed and made available to the enterprises; strategies should include the domestic market as well as the export market.

34. Small- and medium-scale enterprises should be supplied with market information and should receive guidance on market research for following up trends, changes and developments on both export and domestic markets.

35. Efforts should be made to invite selected small- and medium-scale enterprises to participate at relevant national and international trade fairs and exhibitions in order to open up new markets for their products.

Programme for subcontracting and enterprise-to-enterprise co-operation

36. Subcontracting between enterprises, mostly those of different sizes, is a special kind of marketing, a way of opening up new markets for small- and medium-scale enterprises. It should have two major aims, namely an additional market outlet for the products and possibility for converting small-scale production into specialized manufacturing activities. Subcontracting could normally be applied after the small- and medium-scale sector has reached a certain level of development, since in most cases the parts and components to be produced and supplied by the small unit to the large assembly company requiring a certain quality level are not a consumer good but a more complex part of equipment. Classical cases are supplies of parts to car, truck and engine assemblers or similar industries with a high degree of sophistication. However, supplies of simple washers, rods, wire or casted products have developed into successful long-term co-operation between large and small manufacturers with a constant growth in capacity as well as in sophistication of the product.

37. Three major areas offer possibilities for institutions to assist small entrepreneurs:

(a) Advice and guidance in initiating subcontracting relations on an individual basis such as:

- Identification of items with subcontracting potential;
- Identification of a large company as customer;
- Negotiations between the two partners in reaching agreement, including assistance in drafting the agreement;
- Acting as arbitrator between the partners in development and operation of the business venture. The main problem areas are price, delivery time, maintenance of quality and regular payment. Confidence between the partners is of great importance. Moreover, pressure exercised by the large partner on the small one should be avoided.
- Standard agreements for subcontracting agreements could be developed, tested and made available to both partners. The small partners should be assisted and advised in each individual case.

(b) In an industrial and economic climate which allows for accelerated growth of small- and medium-scale enterprises, subcontracting should be widely developed. The existing institutional network should also take up additional functions of subcontracting support and establish a subcontracting climate with a number of national subcontracting exchanges as the first step. Subcontracting is a matter of offer and demand. Subcontracting exchanges should make the capacities, machinery, equipment and skills of the supplier available and try to identify large- or medium-scale customers to initiate contacts between each other. In addition to the provision of offers and interests, subcontracting exchanges can also act as a neutral agency between the small and the large unit to function as an arbitrator between the two partners. Subcontracting exchanges would, in the long run, lead to specialization in the small- and medium-scale enterprise sector resulting in higher output, higher specialization of the product and increased quality.

Subcontracting exchanges have been established at national and regional levels. Experience with regional subcontracting exchanges has been excellent.

(c) Subcontracting should be seen as one step towards broader relationships between large and small enterprises and not only simply limited to the supply of a number of products of a certain quality, price etc. Subcontracting arrangements could be the starting point for closer co-operation focussing on the transfer of technology from large to small enterprises, introducing modern management methods under the guidance of the large partner and could then open up ways for financial support as well as joint efforts in research work.

38. A number of schemes have been introduced in Asian countries with reasonable success. Intensified efforts in this direction have led to steady and continuous modernization and upgrading of the small- and medium-scale enterprise sector.

39. Productivity improvements through a well developed network of infrastructural measures are manifold. However, in the paper, only the non-finance institution has been described. Provision of finance to the small- and medium-scale enterprise sector is a problematic area which deserves to be treated as a separate issue.

Final consideration

40. In the light of the needs of the small- and medium-scale enterprise sector outlined above, the Consultation may wish to examine the following proposals with a view to reaching conclusions and recommendations for enhancing productivity in the sector.

(a) Modernization of small- and medium-scale enterprises

- Programmes of modernization need to be drawn up and implemented in a coherent manner to meet national goals of integrated rural development, provision of goods and services to the rural, peri-urban and urban areas such as agro-processing, training, transport equipment, repair and maintenance and metalworking.

- Support measures in technology, spare parts production, training, management and marketing would need to be provided to raise productivity and profitability.

- The aim of modernization would be to facilitate the progression of small- to large-scale enterprises so that the financial entrepreneurial base of a country is fostered to attain sustainable growth.

(b) Institutional support measures

- Consulting engineering services provided either through the aegis of national institutions and/or directly are critical inputs for productivity improvements. They could provide economic and managerial advice including training, marketing, identification on sources of finance, technological and engineering problems and maintenance etc.; choice of technology, equipment and supplies; and product design and development as well as services related to project identification, pre-investment phase, implementation phase, post-investment phase and improvement/rehabilitation of enterprises.

- Regional networks of institutions serve a highly useful service in the sharing of experiences, technological co-operation, training and the provision of timely and relevant information for placing the operation of small- and medium-scale enterprises on an efficient and profitable basis.

- The most appropriate legal and technical forms of national support institutions as well as their operational modalities, including the provision for payment of fees for services rendered, should be determined on the basis of the stage of development, specific requirements and ultimate concern to be self-reliant after a reasonable period of nurturing.

- Industrial estates as an incentive to small- and medium-scale enterprises have had mixed results. The overriding view suggests that their establishment should be the subject of a rigorous cost-benefit analysis and that their users should vacate the premises after a reasonable period of time.

- Supply-side measures are effective and efficient in so far that policies on the demand side prove successful to generate flows of investments to small- and medium-scale enterprises.

(c) Transfer and development of technology for small- and medium-scale enterprises

- Productivity improvements and the viability of small and medium-scale enterprises are critically dependent on the choice, adaptation and application of technology. Therefore, research and development efforts should be channelled to the needs of small- and medium-scale enterprises and they should have access to research and development results in retooling their plants and in investing in new lines of production.

- Choice of technology should be the result of concerted inputs of economists, technicians and managers and should in general be tested in a pilot project prior to its wider dissemination.

- Small- and medium-scale enterprises have a challenging role to play in new and advanced technologies such as biotechnology and electronics as both investors and users. Their early entry into these industries should be encouraged through appropriate institutional support measures.

- The operations of small- and medium-scale enterprises should be supported through the provision of spare parts production and repair and maintenance facilities. These common services constitute a critical input for sustained growth of small- and medium-scale enterprises.

(d) Marketing of small- and medium-scale enterprise products

- Underutilization of installed capacities and the viability of new enterprises are constrained by lack of raw materials and marketing skills. The allocation of foreign exchange resources to buy provisions for small- and medium-scale enterprises should be a priority consideration in the approval of investment projects of governments as well as support measures and training in marketing.

- Reserving markets and procurements to small- and medium-scale enterprises and the participation of small- and medium-scale enterprises at national and international trade fairs should be encouraged.

(e) Programme for subcontracting and enterprise-to-enterprise co-operation

- Subcontracting as an additional market outlet for more advanced production of the small- and medium-scale enterprise sector;

- Subcontracting as the initial step for close co-operation between enterprises with the focus on enlarging market outlets, transfer of technology, joint research work and financial support.

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Discussion paper

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the UNIDO Secretariat

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1. It is generally acknowledged that in developing countries and to some extent in industrialized countries, enterprises of a small and medium scale have limited access to financial sources from banks and other finance institutions.

2. The financial requirements needed to start up enterprises vary considerably with the size of the enterprise, such as micro-enterprises, small-scale enterprises and medium-scale enterprises.

3. The capital needed to start a micro-enterprise is very small and is usually in the range of US$100 to US$300. This group of entrepreneurs totally lacks access to institutional finance. Capital requirements are usually met from personal or family savings. If the amounts extend beyond their own means, this group is often forced to make use of the informal credit market, such as money lenders, middlemen etc., who often offer their services together with other commercial functions (materials, sales etc.).

4. The next larger group, small-scale enterprises and particularly small-scale industries, has higher fund requirements. The amounts needed to start an enterprise of this size are normally not within the range of their savings nor those within the family. Access to financial institutions is of crucial importance to them and applies to funds of fixed capital such as investments in buildings, machinery and equipment as well as for sources of working capital to operate the business.

5. The same situation exists for the medium-scale enterprises when first starting up. A higher amount of funds would open up possibilities to qualify for loan application to development banks instead of commercial banks.

6. The reason for the difficulties of access of small- and medium-scale enterprises to institutional finance is manifold and is fairly well known. Problems are found on both sides - the banking system, including development banks on the one side, and the small- and medium-scale enterprises on the other.

7. They may be categorized as follows:

(a) Lending to small- and medium-scale enterprises is perceived as being risky. The uncertainties faced by a small enterprise, high failure rate, susceptibility to market changes, and their sensibility to any economic fluctuations make the banking sector reluctant to enter into business with clients of the sector. However, most records seem to show that small enterprises are no less creditworthy than those of the larger scale. The smaller the loan, the better the repayments made, a fact which is noticed in lending schemes for small and micro-enterprises. Although small- and medium-scale businessmen may take greater pains to keep within their repayment commitments in order to maintain their creditworthiness, these enterprises usually depend on a single owner which makes them more vulnerable than in the case of a larger enterprise.

(b) On the part of the small- and medium-scale enterprises there is reluctancy to obtain loans from banks. The administrative requirements and formalities to acquire bank finance, particularly the time and paper work involved, are the practical obstacles encountered by most small businesses. Moreover, small- and medium-scale enterprises are unable or unwilling to present full accounting records and other documentation called for by the banks. In many cases such records do not exist, making appraisal of loan

applications difficult and cumbersome. At the same time, small enterprises usually face difficulties in providing collateral or other security demanded by lending institutions before approving loans.

(c) Another obstacle for bank lending to the small- and medium-scale enterprise sector is the high administrative costs of such small loans even if the interest rates applied are based on commercial rates. These high costs affect not only the profitability of the loan scheme to small- and medium-scale enterprises but the entire profitability of the bank. This is a known factor and has been proven in studies undertaken by the World Bank in which administrative costs for handling larger loans were of the order of 0.3 per cent to 0.5 per cent of the costs of the loan, whereas those for small loans were in the range of 2.6 per cent to 2.7 per cent. In addition to those costs, one has to take into account the risk and potential losses. Although small-scale entrepreneurs try to build up or maintain their creditworthiness, it is a fact that many small enterprise loan schemes, especially the earlier ones, have operated with a high level of arrears and defaults.

8. The above-mentioned difficulties and problems are well known on the lending as well as on the receiving side. However, efforts should be made to reduce the effects of some of them and to find a workable solution to channel more funds into the small- and medium-scale enterprise through the institutional credit system for the benefit of the banking sector as well as the small- and medium-scale enterprise.

9. Although financing is possibly the most important requirement for a balanced development of the small- and medium-scale enterprise sector, it should not be seen in isolation of other measures. Any scheme to ease the flow of funds to the small- and medium-scale enterprise sector and to enable small- and medium-scale enterprise units to obtain their loans at favourable conditions should be developed against the background of the entire institutional network provided for the use of small entrepreneurs. A well prepared feasibility study is one requirement, the other is that the extension services and supervised loan schemes will add to building up and maintaining viable projects which will in turn be profitable and enable repayment of the loans granted.

10. Well functioning co-operation between the development institutes together with the non-finance institutes on the one side and the finance or banking sector on the other will be an indispensible prerequisite for a climate and environment conducive to sound growth of small- and medium-scale enterprises.

Policies and operational measures to improve access to institutional finance

11. Policies and operational measures of the finance sector designed for the small- and medium-scale enterprise should form an integral part of the developmental strategy and environment of the sector. They should not only meet the demand and requirements of the banking system, but also those of the clients, taking into account difficulties and problems in obtaining financial resources for:

- investment capital;
- working capital;
- equity participation;
- venture capital;
- funds for micro-enterprises.

12. Attempts have been made to solve the problem of how to provide more institutional finance for small- and medium-scale enterprises through the creation of separate financial institutions to serve exclusively this group of enterprises. The main objectives of these specialized institutes are not to be profitable as a banking institute, but to act as a promotion agent for their special group of clients. Naturally, the major shareholder needs to be the government, since in the first instance the private sector looks at the profitability of its activities. These special banks operate under the supervision and with managerial influence of the government. There are some good examples of such institutes in Europe, Asia and Latin America. Some provide, together with the funds, other services such as training, extension services or general counselling. Their lending schemes operate on concessionary bases, some of them on interest rates lower than the commercial rate and some of them on special conditions as regards security for their loans.

13. It is clear that the operation of such specialized institutions for servicing a specific sector on concessional terms and with high transaction costs for small loans must have difficulties in operating at a profit. The higher risks of the small loans may add to these difficulties and in some cases have affected the institutes' financial solvency.

14. Many such institutes operate fairly well, but all of them have the tendency to open up their group of clients towards larger loans to larger enterprises in order to improve the profitability of the operations or to avoid losses.

15. This type of institution will increase the flow of funds to the small- and medium-scale enterprise sector, but will have to depend on low-cost funds in order to gain profit or at least not to lose. Such low-cost funds have to come from government resources or from external donors. Naturally, the government has to make provision for a continuous flow of such funds and has to cover the losses if they occur.

16. Other instruments to make more funds available to the small- and medium-scale enterprise sector are the development banks or the development finance institutions. Development banks have not been created to maximize profitability but for developmental aspects. In this way they are based on the same rules as the specialized institutions mentioned above. However, the difference lies in the clientele they serve. Development banks do not have the limitation of one selected sector but normally cover the countries' requirements of developmental finance in all sectors of the economy. This might be industry, agriculture, tourism, infrastructural facilities etc. The loans granted are definitely of larger amounts.

17. However, development banks have not always been the most suitable source of finance for small- and medium-scale enterprises for the following reasons. Development banks tend to favour large loans because of lower operational costs which has a positive influence on their profitability. Some of them even have a lower limit of loans which prevents them handling loans below certain amounts. Normally development banks provide funds for investment purposes only and do not cover working capital loans - an important requirement of the small- and medium-scale enterprise; small- and medium-scale enterprises cannot, therefore, obtain their financial needs from one single institution. Moreover, development banks apply an appraisal system for their projects which suits large-scale loans and require data and documentation which go far beyond the capacities as well as the needs of

small- and medium-scale enterprises. This appraisal system results in long time-spans between application and issuance of loans which is not in the interest of the small-scale client.

18. There are a number of cases in which development banks have established special branches or departments dealing with small- and medium-scale enterprise clients or created subsidiary agents even operating a network of offices to cover their smaller clients in the different regions of the countries with finance, and also with other commercial services such as book-keeping, cost calculations etc.

19. Because of the mix of large loans with low operating costs and the small percentage of small loans having high operating costs, there is an "internal subsidy" in favour of the small- and medium-scale enterprise sector which only to some extent redresses the profitability of development banks.

20. Commercial banks, as already stated, are generally or initially reluctant to grant loans to small- and medium-scale enterprises because of the perceived risks and higher operational costs of small loans. They have, however, a number of advantages to act as channels for lending to small- and medium-scale enterprises and are able to offer:

- investment as well as working capital loans;
- other banking services;
- a network of branch offices in different parts of the country allowing close proximity to the client and knowledge of his standing within the community;
- a quick and less bureacratic response to the needs of the entrepreneurs.

21. In their efforts to involve the commercial banking system in increasing the flow of funds to the small- and medium-scale enterprise sector, governments have developed measures focussing on a reduction of risk to compensate for high handling costs. Credit guarantee schemes enable the commercial bank to share repayment risks with the government. Re-financing schemes provide additional funds to the commercial banks. Loans granted to small clients are re-financed or re-discounted by the central bank. Both schemes are of an incentive nature. Schemes putting pressure on commercial banks, such as fixed lending quotas to the small- and medium-scale enterprise sector, did often not achieve the expected result.

22. An important policy element in lending to the small enterprise sector has been the interest rate. Early financing schemes charged lower interest rates to the small- and medium-scale enterprise. This was normal practice and the lower interest rate was seen as an additional incentive. It has, however, led to distortions. Funds have been given to those applicants with good connections, but failed to reach those who could put them into effective use. Moreover, subsidized interest rates led to erosion of original funds and prevented relending or operation of a revolving fund. Continuous lending activities at subsidized interest rates generate a constant demand of additional sources to replenish the fund.

23. A lesson of experience is that the time to make funds available is much more important to the entrepreneur than the rate of interest. A quick decision on a loan application and the immediate release of the funds after completion of all formalities will be by far more beneficial for the operation of the enterprise than a slightly lower interest rate. An alternative to the entrepreneur would be the money lender or the middlemen who demand much higher rates, but who release the funds immediately.

24. Most loans for investment capital are used to purchase imported equipment and machinery. Foreign exchange is required and the problem arises as to who should bear the foreign exchange risk, the entrepreneurs, the banks or institutions lending the funds, or the central bank or the government. Almost all loans in foreign exchange are channelled through the government and the respective central bank or development bank. Since the government through the central bank is in charge of determining the exchange rate of the local currency vis-à-vis the different currencies, the foreign exchange risk should not be left to the entrepreneur; the more so, since the goods produced by the imported machines are in most cases meant for the local market and do not as such fetch foreign exchange. Leaving the foreign exchange risk with small- and medium-scale enterprises would be an additional burden.

25. One important principle of lending funds to small- and medium-scale enterprises is that entrepreneurs should never get the entire project on an 100 per cent loan basis. Even if the entrepreneur and his team are well qualified for the project and the product to be manufactured is of great importance, economically or otherwise for the country, a part of the financial resources, even if it is very small, should come from the entrepreneur. It could be the working capital only or parts thereof. The principle should be applied to have financial participation of the entrepreneur in the project just to keep his interest in successful operation of the venture.

26. Provision of funds to micro-enterprises which are considered part of the small- and medium-scale enterprise sector requires different measures and lending channels. Micro-enterprises have neither a bank account nor any security to offer and the amounts required are small and repayment durations short. In addition, the clients often operate in remote areas far away from the metropolitan area or larger towns. To reach the clients in their locations and their demands for amounts as low as US$200 create the necessity to use different measures. Successful results have been achieved in using unconventional intermediaries such as co-operatives, associations or religious-related organizations as distribution channels for the small funds as well as for debt collections. Security for these small amounts has often been solved by accepting orders, materials etc. as collateral or based on the person's character and his or her position in the society.

Effective implementation of lending policies

27. Policies, rules and operational measures to improve the flow of funds to the small- and medium-scale enterprise sector do not automatically create an increased flow of capital to the sector. It is only the effective implementation of the policies which achieves the results. Rules and measures are developed for a certain sector within a given economic situation and at a specific time. They are made to achieve an intended result for the target group. Since the small- and medium-scale enterprise sector is an inhomogeneous group, one should see if the expected reaction is forthcoming from all parts of the sector. For example, some measures may be well received by industrial units, but less from the trading sector, or the larger units within the sector's benefit; thus the lower end of the group is unable to gain any benefit.

28. Credit guarantee schemes have been developed and put into force, but the commercial banks do not believe in them and react reluctantly. Therefore, it is compulsory, in achieving good results, that policy matters established be screened at periodical intervals and their reaction within the target group analyzed. Developments in the small- and medium-scale enterprise sector and

trends in the entire economy, internal or external, may result in changes in requirement and need. Subsequently, measures should be amended to focus on practical and realistic problems of the sector and result in the intended reactions and results.

Special windows for small- and medium-scale enterprise financing at national, regional and international levels

29. As mentioned above, financing of the small- and medium-scale enterprise sector has to take into account a number of specific requirements and needs which are typical for the sector, resulting from the size or scale, the situation in which the units are operating, and the knowledge and experience of each and every individual entrepreneur.

30. In many developing countries, special programmes, institutions and agencies have been set up to look specifically at the problems of financing of the sector. In some of the countries it is not required since facilities exist in one form or other, whereas in other countries this problem has not yet been given the required priority. While in many countries special institutions and branches within developing banks or special teams within commercial banks have been established and the special window created for the small and medium enterprise sector and its particular problems, this trend has so far not been noticed at the regional level. Regional development banks or other such institutions have not yet paid special attention to the financing problematic of the small- and medium-scale enterprise sector.

31. The World Bank and its affiliates as well as national development banks of industrialized countries have established and carried out a large number of loan schemes and lines of credits for small- and medium-scale enterprises. Large amounts of their portfolio have gone into financing of those enterprises. These international institutions have opened a special informal window for the small- and medium-scale enterprise sector, but they have not yet created within their organization departments which specifically deal with a sector which will certainly gain more importance in the future.

Innovations in collateral requirements

32. Provision of security for loans is a major problem in the small- and medium-scale enterprise sector. It is not so much a question as to whether 100 per cent, 150 per cent or 200 per cent of the loan is required as value of the security, as to the general availability of security for a loan which creates difficulties for entrepreneurs. The core of the problem is the entrepreneur, a person with ideas and drive willing to earn a living through the enterprise but with no strong financial backing in the form of cash funds or values of other kind. The convential forms of security are land or other investments such as houses etc. Many entrepreneurs do not possess such property. Moreover, the situation is aggravated since in many countries land is often owned jointly by the family or by the eldest person in the family. In spite of the availability of land, it is not easily possible to obtain a title deed for the land in the name of the person applying for the loan. In other countries land ownership is not registered, and therefore onwnership cannot be proven in any written form.

33. Many financial institutions have started to accept the equipment purchased through the loan as guaranties for repayments. This principle should be generally applied with the exception of equipment which is small and of high value, such as expensive cameras for a photo studio, which can easily

be removed. Other collateral, for instance, for loans of imported raw materials are special warehouses to which only the entrepreneur and the bank have access. The bank controls the stock and only releases materials against agreement and payment for the portion required at the time.

34. Hire-purchase schemes are further instruments to release the burden of finding securities. Such schemes have operated in a number of countries with good results but are, of course, not the classic security arrangements for machinery and equipment bought on loan. Leasing of equipment offers similar solutions, but is not yet applied excessively by the small- and medium-scale enterprise sector.

35. While new ideas should be developed to ease the burden of providing securities to guarantee the repayment of loans to the small- and medium-scale enterprise sector, a waiving of any security should only be granted in very rare cases. The security offered, irrespective of its value, should be the mental tie and interest of entrepreneurs to utilize the loans productively. If the venture is a failure, the threat of losing one's property should be maintained as an incentive for operating an effective and profitable enterprise.

Availability and access to financial resources for venture capital

36. Venture capital for enterprises of the small- and medium-scale group is a relatively new requirement. It has emerged in the context of close links between research work, new technologies based mainly on electronic data processing and computerization on the one side and small- or medium-scale production on the other with the focus on transforming the results of research work into productive actions.

37. As governments are the main sponsors of research work, so are they also the most logic agents to provide resources for venture capital. A start has been made in research parks and innovation centres, often linked to universities. Thought should be given to provide funds and loans through special channels. Moreover, the possibility of equity participation of government-owned institutions in these enterprises should be considered.

Policy support systems and institutions to promote entrepreneurship among women

38. In the last decade participation of women in economic and business activities has been given high priority. Women have a natural talent for organization and management. They exercise and prove this daily in their family life which not only entails cooking and providing clothing and shelter etc., but also involves keeping the entire "enterprise" within the available budget. In the micro-enterprise sector and to some extent in small-scale enterprises, women entrepreneurs maintain a fairly large share which should be rewarded with payment of equal benefits as men. The non-financial services and institutions do not call for as many gender-specific measures as does the financial services sector. In general women receive equal treatment as their male competitors from development institutes, extension service centres or through applications for accommodation in industrial estates. Due to the nature and experience of women, there might be more demand for assistance from female entrepreneurs in engineering and technical matters, but no difficulties have been experienced in obtaining this type of services.

39. In some countries women entrepreneurs even dominate several sectors such as the retail trade, catering services, manufacturing in small-scale food and textile units or parts of the handicraft sector.

40. Difficulties, however, have been experienced by women entrepreneurs in receiving services from financing institutions. Major reasons for this can be found in the inability of women to provide guaranties for repayment of loans. Due to cultural or family traditions, the property of families is often in the name of the male partner within the family frame. Women entrepreneurs, therefore, face extreme difficulties in raising security as guaranty for loans. While economic and fiscal policies cannot change family traditions, thought should be given to finding innovative solutions and introducing specific measures focussing on improved access to financial sources for women entrepreneurs. These measures could also lie in introducing more training opportunities or easier acceptance of women in micro-enterprises or in directing them to those activities in the small-scale sector which will suit their talents and experience as business women in order to gain commercial experience and financial strength for larger enterprises at a later stage.

41. Women's World Banking as a non-governmental organization tries to create a more favourable climate for women entrepreneurs. The organization is expanding its activities in several countries, especially in Africa where the problem of women in finding institutional credits is more severe than on other continents. The creation of gender-specific organizations and intensified activities of Women's World Banking should be given favourable consideration.

Final consideration

42. Access to finance is a major problem for the small- and medium-scale enterprise sector. The Consultation may wish to examine the following key considerations with the view to reaching conclusions and recommendations for achieving an increased flow of funds to small- and medium-scale enterprises.

(a) Policies and mechanisms for increasing the volume of financial resources to small- and medium-scale enterprises

- Incentive and promotional measures to channel personal and community savings for productive investments;

- Establishment and expansion of rural banking facilities to act as financial intermediaries for industrial co-operatives and small- and medium-scale enterprises for their investment requirements in the framework of integrated rural development;

- Creation of special windows in financial institutions to provide funds at concessionary terms to small- and medium-scale enterprises in the context of programmes aimed at supporting private sector initiative;

- Promotion of policies that encourage the provision of special loan schemes, strengthening the operations of development banks and supporting the commercial banks through such instruments such as credit guarantee, re-discounting/re-financing schemes and foreign exchange risk.

(b) Improvement of access to finance institutions

- Differentiation of policies, incentive measures and instruments by target groups: micro-enterprises, industrial co-operatives and small- and medium-scale enterprises;

- Innovations in collateral requirements in accordance with the means and possibilities of the different target groups which could include for the most disadvantaged accepting collaterals as guarantee for loan repayments of land, equipment purchased through loans, and other securities for loans such as raw materials, contracts or personal guarantees.

- Reorientation and simplification of loan appraisal and approval procedures of the banking system through greater interaction and structured co-operation of own economic research and appraisal units with research and development institutes, technology centres, consulting engineering services in regard to market and technology viability and with chambers of commerce and industry, relevant communities and associations in regard to personal testimonials.

- Assistance in the identification, formulation and implementation of viable projects as well as in start-up, operations and marketing. Access to finance is critically dependent on the quality of project preparation and investment packaging. National institutions must accord high priority to this activity to increase the volume and access to financial resources. They should create consulting engineering services where these do not exist, establish close working arrangements with research and development institutes and technology centres, promote and implement training programmes for project personnel, and set up units for monitoring trends in markets and technology to facilitate the earliest entry of small- and medium-scale enterprises into new lines of production.

- Need for venture capital for entry into new investments based on inventions or innovations; government support in research and development, establishment of pilot projects, and provision of seed capital to set up manufacturing facilities;

- Joint ventures as instruments of investment packaging for locating high technology manufacturing facilities in co-operation with patent holders.

(c) Policy support systems and institutions to promote entrepreneurship among women

- Equal treatment of women entrepreneurs;

- Special provision of loan guaranties to women entrepreneurs;

- Assistance to organizations supporting women entrepreneurs.

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1. Since the 1960s the small- and medium-scale enterprise sector has been the subject of studies, research and finding new and more effective ways for the promotion and accelerated growth of the individual enterprise. Activities of this kind have taken place on a scientific basis through the identification of programmes, policies and measures to create favourable conditions, frameworks or environments conducive to the growth of the sector.

2. Initially, there was North-South co-operation through multilateral or bilateral agencies through technical co-operation agreements between industrialized and developing countries. Many development agencies for small- and medium-scale enterprises have been created through technical co-operation projects as well as financial assistance agreements through North-South co-operation at government level. Contributions of the non-governmental sector in the form of foundations, special organizations and agencies should not be neglected.

3. A large number of agencies, development institutions, research centres, extension service and training centres have been created and have accumulated a wealth of experience within their sectors and countries. Moreover, the banking system and development and commercial banks have gained experience in handling their small- and medium-scale clients. A broad based exchange of experience has not yet taken place, and accumulated experience offers a tremendous potential for fruitful co-operation country-wide, regional and international. North-South co-operation should be backed up with the South-South dialogue which needs to be urgently encouraged in order to utilize the knowledge and potential available in the developing countries.

4. The different forms of possible co-operation offered could range from enterprise-to-enterprise co-operation at national and international levels to a dialogue of institutions and associations within a national, regional or international framework.

5. Small- and medium-scale enterprise development is a multi-facetted problem and requires integrated solutions. In addition, the socio-economic environment in which development takes place plays an important role. No standard or universally valid solution can be offered; instead, each solution requires evaluation of the situation and analysis of the requirements to determine the right decision. Through intensive dialogue among institutions, their knowledge and experience will become available to similar organs and will stimulate their activities.

6. Multilateral agencies should play an important role by facilitating networking, information-sharing and learning among countries and agencies. Such dialogues should take place both at government as well as non-governmental level. Existing networks should be intensified and strengthened and new ones developed in different fields.

Training

7. At the national level existing centres active in training should closely co-ordinate their activities with focus on the specific requirements of the small- and medium-scale enterprise sector. This should bring together institutes for training in extension and consultancy services, entrepreneurship development and specialized training institutes. Vocational training schools as well as universities should consider training requirements of the small- and medium-scale enterprise sector in their programmes. This would lead to a balanced offer of training opportunities and increased

awareness of small- and medium-scale enterprises as potential employment opportunity and awake entrepreneurial spirit among the trainees. Exchange of resource persons and teaching staff should also be encouraged.

8. Increased co-operation among training centres in different countries having similar problems and similar economic development levels will lead to sharing of experience, approaches and methodologies and through this to an improvement in their training performance.

9. Inter-country, regional as well as international co-operation among training centres should increasingly be encouraged. Regional organizations as well as multilateral and bilateral agencies should sponsor meetings, workshops and exchange of experts to set examples for practical South-South co-operation at all levels.

Transfer and development of technology

10. Centres for the development and transfer of technology have been established mainly with international assistance. Their achievements in the adaptation of technologies developed in industrialized countries for utilization in developing countries have been remarkable. A transfer of technology in the North-South direction is taking place. So far there has been a lack of South-South co-operation among these centres to the extent that certain technologies and techniques have been invented more or less simultaneously by a number of centres in different countries. Close co-operation between those centres and an exchange of research results and experience will save funds and manpower and produce faster results.

11. In addition to regional and international co-operation at the institutional and centre levels, co-operation at the enterprise-to-enterprise level between small- and medium-scale enterprises in developing and developed countries should be mentioned. Encouraging results have been achieved by some programmes as, for instance, the sister industry programme started between Sweden and the United Republic of Tanzania or the enterprise-to-enterprise co-operation programme run by the United Nations Industrial Development Organization (UNIDO) between a few industrialized countries on the one side and a number of developing countries on the other. Further co-operation in these activities should be sponsored.

Financing of small- and medium-scale enterprises

12. Co-operation between financing and non-financing institutions on a national, regional and international basis is one of the indispensible prerequisites for sound growth of the small- and medium-scale enterprise sector.

13. At the national level, co-operation between development institutes in preparation for loan appraisal documents prior to submitting a loan application is a well established practice in many countries. The loan is processed by the banking institution and after it is granted, follow-up lies again in the hands of the development institute.

14. Regional and international finance institutions as well as bilateral funding agencies offer lines of credit to the small- and medium-scale enterprise sector. The loan approval procedure for a foreign exchange loan to the individual enterprise is channelled from the entrepreneur through a local

institute to the regional or international source of finance. Loan appraisal procedures of this kind have given rise to long delays in obtaining funds. The increased demand for financing and the specific conditions under which the small- and medium-scale enterprise sector is operating have not yet been reflected sufficiently by those finance institutions. Special programmes or special windows should be established through the regional and international development banking system, taking into account practical and realistic requirements of the small- and medium-scale borrower.

Marketing

15. Subcontracting is considered as a tool to provide additional market outlets for parts and components produced by small- and medium-scale enterprises. Subcontracting requires an equal quality standard of the product and is in general only applicable to those units which have accumulated sufficient experience and reached an advanced stage with respect to quality, price, delivery times etc. The first step of subcontracting is at the national level. When the small- and medium-scale enterprise units have reached that level and developed satisfactory subcontracting relations on a local basis, the next step towards subcontracting partners in export markets should be encouraged.

16. National subcontracting exchanges should broaden their activities and identify subcontracting partners abroad. Moreover, regional subcontracting exchanges have proven successful, e.g. covering some Middle-East countries in identifying production units as well as customers for their products on a regional basis. More such regional subcontracting exchanges should be set up. Thought should be given to ways and means for establishing an international subcontracting exchange under the guidance of multilateral agencies.

Final consideration

17. Co-operation in the North-South and South-South context needs to be strengthened. The Consultation may wish to examine the following proposals with a view to reach conclusions and formulate recommendations for increased international co-operation in the field of small- and medium-scale enterprise development.

(a) Multilateral aid

- Small- and medium-scale enterprises are effective agents for the achievement of national economic objectives as exemplified in integrated rural development programmes, river and lake basins development schemes and employment generation. They are the main instruments for enhancing private sector initiatives for a more efficient utilization of national resources and for alleviating poverty in the rural, peri-urban and urban areas. Substantial external resources are needed to sharpen development policy instruments, strengthen institutions, and facilitate the flow of finance, technology and know-how. Donors might, therefore, wish to assign a higher priority to the sector and possibly establish a quantitative target for the sector.

- In view of the variety of programmes and proliferation of projects, it would seem desirable to create co-ordinating mechanisms to assure full impact and benefit from international aid at two levels: (i) at the country level consisting of donor representatives - UNIDO, International

Labour Organisation (ILO), Food and Agriculture Organization of the United Nations (FAO) - under the leadership of the United Nations Development Programme (UNDP) regional co-ordinator; and (ii) at the global level wherein eminent experts in their personal capacities would interact with UNIDO, ILO and FAO, and advise on policies and programmes of aid flows to small- and medium-scale enterprises.

- Industrial co-operatives as instruments for mobilizing community resources and as breeding grounds for entrepreneurship development would constitute an important area of co-operation between countries of centrally-planned economies and developing countries.

(b) International financial co-operation

- Creation of special windows in international and regional financial institutions for assured and predictable loans to small- and medium-scale enterprises at concessionary terms, particularly to the least developed countries, in view of their special needs;

- Establishment of a seed revolving fund for venture capital and joint ventures involving the international financial institutions, banking institutions in the developed and developing countries and transnational corporations;

- Increased provision of financial and technical co-operation to development, commercial and rural banking systems in the developing countries to enable them provide loans and services to small- and medium-scale enterprises efficiently, profitably and on a timely basis;

- Creation of a Task Force possibly under the leadership of the International Bank for Reconstruction and Development (IBRD) and comprising representatives of UNDP, UNIDO, ILO and FAO to advise on policies and programmes in light of the variety and changing needs of small- and medium-scale enterprises for financing and technical co-operation.

(c) International technological co-operation

- Supporting and expanding research and development efforts in the developing countries in priority sectors through twining arrangements, enterprise-to-enterprise co-operation and access to information on technology alternatives;

- Promotion of research aimed at scaling down technologies to suit market sizes in developing countries and funding of pilot projects to demonstrate viability and profitability;

- Assistance in the development of consulting engineering services through either joint ventures and/or subcontracting;

- Creation of a data-base in the form of directories of sources of technology, equipment supply and prices as well as checklists of contractual arrangements in respect of spare parts production, repair and maintenance, royalty payments and training.

(d) South-South co-operation

- Arising out of the varying levels of industrialization, the scope of South-South co-operation is vast. Exchange of experiences would be facilitated with the creation of information networks and institutional interactions on a sustained and structured basis.

- Directories of sources of technology and equipment supply should be compiled and published; so also consulting engineering services.

- Joint ventures should be promoted and implemented based preferably on bilateral agreements governing production and trade arrangements.

- Access to markets should be encouraged through promotional measures and adherence to quality and standardization norms.

- Training of managers, entrepreneurs, technologists and technicians in centres of excellence as part of a strategy of demonstrating the potentials and benefits of South-South co-operation.

(e) Technical co-operation

- That the focus and thrust of technical co-operation should primarily be the sensitization of policies, instruments and mechanisms at the highest level of national decision-making has emerged from the analysis. Assistance is needed in the creation of national small- and medium-scale enterprise development councils to sensitize and mobilize private sector initiative to achieve national economic objectives to redress regional imbalances, alleviate poverty, create employment and raise standards of living in the rural areas through such programmes as integrated rural development, resettlements and river and lake basins development schemes.

- Entrepreneurship is a key ingredient for creating the agents of change and economic achievements. Assistance in the identification of projects, entrepreneurs and training of managers, technologists and technicians would play a critical role in laying the entrepreneurial base for growth. Such assistance should be aimed at ensuring an assured progression of micro-enterprises to leaders of modern industrial operations.

- Assistance may furthermore be needed to create an economic environment conducive to generating private sector response to economic goals. Such assistance should aim at a better integration of the small- and medium-scale enterprise sector in national plans and policies and harmonization of incentive measures with macro-economic policies.

- On the supply there is an evident need for closer interaction between financial and technical co-operation. The latter could contribute significantly to strengthening and streamlining the operations of lending institutions to better respond to the needs of the small- and medium-scale enterprises and the former to create suitably tailored loan programmes to the sector. Assistance is furthermore required to expand banking institutions in the rural and peri-urban areas and for these institutions to adapt their loan appraisal and approval procedures to the specific potentials and needs of small- and medium-scale enterprises.

- The functions of national institutions would need to undergo changes in order to enable them to cope with the challenges of the future, particulary the prescription that they may be required to operate on business lines. Profitability would be the basic criteria of performance. They would, therefore, need to strengthen their project preparation functions.

- Consulting engineering services would play a critical role in technology transfer, project preparation, appraisal and implementation, and in packaging investment proposals. They could greatly assist the national institutions as an integral part of their operations or as offshoots. One of the main thrusts of technical co-operation may very well be assistance to be rendered to the developing countries in their setting-up and initial operations.

- Specific priority areas of technical co-operation are: training, research and development, technology centres, standardization and quality control, enterprise-to-enterprise co-operation, subcontracting exchanges and trade fairs.

- Technical co-operation should also serve as a catalyst for institution-building at the national level and for fostering increasing levels of North-South and South-Soth co-operation, as well as to formulate a beneficial interaction within the United Nations system as well as donor agencies in programmes and projects aimed at the development of small- and medium-scale enterprises.

- A panel of experts is proposed to be set up to monitor and advise on the implementation of the recommendations of the Consultation. The panel should be composed of representatives of selected donor countries, IBRD, regional financial institutions and UNIDO, FAO and ILO so as to foster the implementation of a coherent programme of action aimed at the development of small- and medium-scale enterprises.